

## **SUMMARY**

### **Summary of Report 29/2018, relating to the General Account of the Government of Catalonia, year 2016**

*Barcelona, 30 January 2019*

The Public Audit Office for Catalonia has issued Report 29/2018, relating to the General Account of the Government of Catalonia (*Generalitat*) for financial year 2016, in accordance with its Annual Programme of Activities.

The report, which was presented by the Chairman, Mr Jaume Amat, was approved by the Audit Office Board at its meeting on 12 December 2018, with one concurring vote, involving matters of reasoning.

The purpose of the report is to issue an opinion on whether the accounting and financial information presented conformed to applicable accounting principles and also on whether it was compliant with legislation.

The report also proposes measures of a general nature considered necessary to improve the Catalan government's performance.

The government's General Account for year 2016, which was presented before the legal deadline by the Catalan Government's Comptroller General's Office (*Intervenció General*) (IGGC), has the following structure:

- The General Government Administration (GGA) Account.
- The annual accounts of the Catalan Health Service (CatSalut) and the autonomous administrative agencies.
- The annual accounts of the public consortia attached to the Catalan government.

The first part of the report deals, in sections 2 to 6, with the accounts submitted by the IGGC, which include, along with the accounts of the Catalan Government Administration, those of CatSalut and of the autonomous administrative agencies and public consortia attached to the Catalan government. The results of the audit work for these sections, with the limitations described in the report, serve to allow an opinion to be expressed on how well the accounts presented conform to statutory requirements and on legal compliance in the spheres of accounting and finance.

In the second part of the report, and in fulfilment of the Public Finance Act, the Public Audit Office has appended to the contents of the General Account submitted by the IGGC the accounts of autonomous agencies of a commercial nature, the accounts of public enterprises, the accounts of other statutory entities and the general accounts of provincial councils (*diputacions*).

Bearing in mind the aim, scope and methodology used for this report, the Audit Office's opinion arising from the results of the audit work carried out is that, except for the possible effects of the limitations described in findings 5, 14, 15, 17 and 18, and for the effects of the matters described in findings 9, 12 and 16, the General Account, as audited within the scope described in sections 1.2, 5 and 6 of the report, represents in all significant aspects a true and fair view of the assets and financial position of the Government of Catalonia as at 31 December 2016, and also of its results, cash flow and budget outturn corresponding to the financial year ending on that date, in accordance with the relevant financial reporting regulatory framework and, in particular, the accounting principles and criteria contained in that framework.

According to the data presented by the IGGC, the consolidated budgetary result for year 2016 showed non-financial recognised commitments (expenditures) of €27,587m and non-financial realised receipts (revenues) of €25,918m, with a non-financial deficit of €1,669m, which was a reduction of €3,652m compared to the funding shortfall as at 31 December of year 2015.

Consolidated financial debt in year 2016 stood at €65,669m, which was an increase of 6.0% on year 2015.

The Conclusions section of the report presents twenty-one findings arising from the audit work carried out. Some of the most significant ones are as follows:

- The consolidated statements for the budget outturn submitted by the IGGC are the result of aggregating recognised revenues and expenditures by the entities within the consolidation perimeter and then subsequently eliminating reciprocal transactions. The IGGC presented a Balance Sheet and a financial Operating Statement which were aggregated without taking into consideration any of the items requiring elimination to produce consolidated accounts. There is a need to establish a systematic procedure to reconcile balances held between the GGA and the rest of the public sector to enable consolidated accounting statements to be reported.
- The funding requirements for the 2016 financial year, calculated using the criteria of the European System of National and Regional Accounts (ESA), which are to be applied when assessing compliance with budgetary stability objectives, came to €1,974m, according to calculations by the Spanish central government's Comptroller General's Office (IGAE); this represented a deficit equivalent to 0.93% of Catalonia's gross domestic product (GDP), when the objective was 0.7%.
- The IGGC did not include infrastructures and public facilities which were considered public investment in the Balance Sheet it drew up; once these have been build, each year the IGGC accounts for the expenditure arising from paying leases or periodical charges, and includes future outlays in the Statement of Expenditure Commitments for Future Years.
- The GGA and CatSalut budget outturns failed to include part of the expenditure incurred during the year, due to insufficient budgetary allocations. Expenditure incurred during year 2016 but not put on the books came to €1,442.83m, of which €855.10m corresponded to CatSalut. Expenditure reported in the budget outturn for year 2016 but actually incurred in 2015 was €1,331.00m.

- The figure for non-earmarked consolidated budgetary year-end net working capital (*romanent de tresoreria*) as at 31 December 2016 reported by the IGGC was again negative, at minus €1,568.53m, but was a decrease of 34.9% in relation to 2015. In spite of this improvement, the negative budgetary working capital carried over continued to create liquidity problems.
- The figure for budget section 9 in the statement of acquired expenditure commitments affecting future financial years presented by the IGGC included the leaseback payments pending on facilities built through land construction rights along with value added tax (VAT). This meant that the amount in this statement was overvalued by approximately €651.34m.
- The 31 December 2016 figure for risk exposure from bank guarantees issued was €3,445.16m, still at a high level.
- The governmental public sector needs to improve its inventories and update them so that they coincide with the figures in the accounts.
- The final results of the programme-contracts with the Metropolitan Transport Authority envisaged that the public transport system would generate a deficit estimated at €540.89m as at 31 December 2016. The GGA does not have any liability item on its books under this heading.
- The IGGC did not include with the General Account submitted to the Audit Office the annual accounts and audit reports of twenty public sector consortia it considered attached to the government, because these entities had not sent it this information. The Audit Office subsequently obtained access to the annual accounts of fifteen of these twenty consortia whose details had not been initially included.
- Four of the sixty-nine consortia reported by the IGGC as being attached to the government were being dissolved or merged through a takeover process. As at 30 April 2018 only forty-one of the sixty-five remaining consortia had adapted their corporate statutes. All the adaptations of statutes took place after 31 December 2014, which was the legal deadline for carrying them out.

The improvements in comparison with the General Account for year 2015 were as follows:

- In year 2016 the Government of Catalonia met its objectives for public debt and for the expenditure rule, as laid down by the Spanish Cabinet agreement of 2 December 2016.
- The consolidated debt presented in the Notes to the General Account included the figures for payments pending by the Catalan Government Administration and CatSalut relating to *censos emfitèutics* (seigniorial land rights).
- As at 31 December 2016 overall average payment times stood at 28.9 days; thus, the maximum statutory time limit of thirty days, as stipulated by legislation on payment defaults, was not breached.
- The IGGC had on its books a provision for the amounts of claims received through administrative channels for interest accrued on arrears, because statutory payment deadlines had not been met; it had also recorded as expenditure liabilities the amounts claimed through judicial proceedings.

- The IGGC presented both the consolidated and the GGA's statement of budgetary year-end net working capital separating earmarked and non-earmarked funds, as required by the executive order of 28 August 1996, which gave approval to the General Public Accounting Plan for the Catalan Government.
- In the General Account of the Government of Catalonia presented by the IGGC various findings and recommendations made by the Public Audit Office in previous years had been taken into account. Prominent among these were the following: accounting for debt outstanding with Spain's central (state) government resulting from the negative final balance for years 2008 and 2009 of its share of central government tax revenues, totalling €1,871.89m; including in the accounts for the Catalan Government Administration the loans taken over from the joint-stock company Túnel del Cadí, SAC, totalling €19.70m; reclassifying that part of the government's financial investments which were repayable in the short term; and reclassifying the balance held by CatSalut under Treasury Holdings, totalling €189.75m, by including it under Short Term Debts with Financial Institutions.

The Audit Office recommends that the necessary steps are taken to resolve the issues described in the findings presented in the report, especially those which recur year after year. The officials in charge should inform the Audit Office of the corrective measures undertaken to deal with the deficiencies described in the audit report.

Some of the most significant data for the Government Administration Account are as follows:

- The budget outturn showed realised receipts (revenues) of €35,674m and recognised commitments (expenditures) of €34,506m.
- As at 31 December 2016 Catalan government staffing levels stood at 124,028 employees, compared to 123,614 the previous year. The number of tenured civil servants went down by 3.4%, interim civil service staff levels were up by 13.9% and permanent staff on labour contracts decreased by 5.9%.
- During the 2016 financial year, the Catalan government continued to use different extraordinary funding mechanisms set up by Spain's central (state) government; prominent among these was an ICO loan of €9,398m from the Regional Government Liquidity Fund.
- Of the Catalan Government Administration's €67,096m in financial debt outstanding as at 31 December 2016, €50,037m was debt corresponding to financing funds set up by the Spanish central government.
- The statement of acquired expenditure commitments affecting future financial years showed €106,966m for year 2016; this was an increase of 3.3% on the 2015 figure.
- As regards public sector procurement undertaken by the Catalan government and its public sector, in year 2016 a total of 47,190 contracts were awarded, worth a combined total of €1,769m.

This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at [www.sindicatura.cat](http://www.sindicatura.cat).